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SUBJECT: KAZAKHSTAN: SENIOR OFFICIALS DENY GOVERNMENT INTENDS TO
IMPOSE CURRENCY CONTROL MEASURES

1. (U) Sensitive but unclassified. Not for public Internet.

2. (SBU) SUMMARY: The Mazhilis (i.e., the lower house of parliament) is currently considering draft legislation regarding the introduction of a special currency regime, which would include certain currency control measures. Senior Kazakhstani officials maintain that the legislation merely clarifies procedures in existing law, and that the government has no intention of using this authority in any event. END SUMMARY.

AMENDMENTS WOULD CLARIFY EXISTING LEGISLATION

3. (U) Draft legislative amendments regarding certain currency control measures went through a first reading in the Mazhilis (i.e., the lower house of the parliament) on March 4. The amendments -- which are part of a broader package of legislation on currency regulation -- would provide for the introduction of a special currency regime that would require companies to keep a certain percentage of their foreign currency profits in the National Bank of Kazakhstan or other authorized banks. Under the regime, special permission would be required to conduct foreign currency operations, and there would be requirements for the mandatory sale of foreign currency earnings and limits on the use of foreign bank accounts. In addition to these measures, the President would have the right to introduce other temporary currency restrictions.

4. (U) In fact, Kazakhstan's existing legislation already contains provisions that would allow the President to invoke a special currency regime in case of a "threat to the economic security of Kazakhstan and to the stability of its financial system." The existing legislation, however, does not specify the measures and restrictions that the President could introduce. The proposed law is apparently aimed at spelling out those measures. (NOTE: A special currency regime would not be a completely new phenomenon for Kazakhstan. During 1994-95 and 1999, Kazakhstan mandated the sale of 50 percent of all foreign currency earnings to the National Bank, at a time when it was battling economic uncertainty following the fall of the Soviet Union and the 1998 Russian financial crisis. END NOTE.)

SENIOR OFFICIALS MAINTAIN NO INTENT TO IMPOSE CONTROLS

15. (U) National Bank Deputy Chairman Daniyar Akishev stressed to journalists in early March that the proposed legislation simply clarifies procedures already provided for in existing legislation. He emphasized that Kazakhstan does not actually plan to introduce these measures. As he put it, "We are defining more clearly what controls can be introduced in case the country's economic security is threatened." Similarly, an Embassy contact in the National Bank's currency control division told us on April 1 that the legislation is only a precautionary measure, and that it would be invoked only in case of an emergency.

16. (SBU) At a reception for the Public Private Economic Partnership Initiative on April 1, we asked Deputy Prime Minister Yerbol Orynbayev about the legislation. His first reaction was to explain that Prime Minister Karim Masimov and National Bank head Grigoriy Marchenko wanted to eliminate "mom and pop" currency exchange points and allow currency exchange only in banks. When pressed further, he said the government already has the authority to restrict the transfers of foreign currency, but added that it has no intention of using that authority. (COMMENT: Orynbayev's apparent lack of familiarity with the legislation provides further evidence that the government is not planning on using such authority in the near future. END COMMENT.)

17. (SBU) According to Dominic Lewenz, an analyst at Visor Capital, an Almaty-based investment banking firm, Kazakhstan is unlikely to invoke currency control provisions so long as crude prices do not plunge further. However, according to Lewenz, should the price of oil continue to fall and stay low for a prolonged period of time, Kazakhstan could be forced to introduce the proposed measures to

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avoid further pressure on its currency and gold reserves.

18. (SBU) COMMENT: Imposing foreign currency controls would have a negative impact on Kazakhstan's investment climate. Kazakhstani officials are clearly aware of this, which makes it likely that they are not planning any such steps for now, and would only invoke currency control measures in an emergency situation. END COMMENT.

HOAGLAND